

There have not been any comparable units in complexity or size to those on Duke's system that have gone through the decommissioning process at this point in time to allow a direct analogy of costs and contingencies. Also, the Commission cannot assume there will be additional plant life extensions merely from the fact that it is being studied at this time. The Commission, thus, denies the Consumer Advocate's proposal to lower the contingency factor and the corresponding level of revenue requirement and depreciation rate.

The Consumer Advocate also proposed to adjust the earnings rate assumption for qualified and non-qualified funds to at least 6% and thereby reduce the Company's South Carolina revenue requirement by \$2.869 million and nuclear depreciation to 4.38% on an annual basis. Both the Consumer Advocate and the Company agreed on an annual rate of inflation of 4.5% while the Company assumed an earnings rate of 1% above the 4.5% inflation rate only for money placed in non-qualified, external funds. Consumer Advocate witness Lanzalotta presented information supporting an earnings rate of 1.5% above inflation for the external qualified fund and also used this for non-qualified funds, assuming non-qualified funds should be able to earn a higher rate of interest, relative to inflation, than the qualified fund.

These interest rate assumptions used for funds invested in the qualified and non-qualified external funds are crucial. They have a significant impact on the level of annual funding which is required so that the funds necessary for decommissioning are

available to pay for such decommissioning. The Commission is very concerned about the adequacy of funding for decommissioning as well as appropriate cost allocation. Therefore, the Consumer Advocate's proposal to adjust the assumed earnings and depreciation rates is denied, but his recommendation to review the actual earning rate performance of these funds is reasonable and is therefore approved. The Company is required to reassess its decommissioning provisions every four years in order to consider changes in the estimate of decommissioning costs, including the effect of any life extension allowed by the NRC, and how well the fund has performed.

The Company also offered a new "1990 Depreciation Rate Study" through the testimony of Ronald E. White, Senior Vice President and Senior Consultant of Foster Associates, Inc. The Commission Staff examined this Study and found it to be just and reasonable and in line with previous studies adopted by this Commission. The only exceptions taken to this study were by the Consumer Advocate which stemmed from objections to the Company's decommissioning study which have been addressed previously and were denied. Based upon the Commission's findings concerning the decommissioning study and our review of the depreciation study and the evidence presented, the Commission, finds it to be just and reasonable and appropriate for use in this proceeding and therefore approves the depreciation study as proposed by Duke for use in this case.

B. ANNUALIZATION OF SALARIES AND WAGES

The Consumer Advocate differed from the Company and the Commission Staff on the Company's adjustment to annualize the increases in wage rates and related fringe benefit costs during the test period. The Company proposed an adjustment of \$4,832,000. Witness Price agreed with this adjustment. Hearing Exhibit No. 37, Accounting Exhibit A-1. While witness Miller agreed with the "concept of recognizing wage increases which have occurred during the test year," he opposed the Company's adjustment because of Duke Power's plans to reduce its work force by 3.0% through attrition by the end of 1991. (TR. Vol. 5, pp. 26-28). Witness Miller stated that "since the Company's adjustment only recognizes increases in wage rates and does not recognize the reduction to the employee levels, ~~it significantly overstates the wages that can be expected~~ to be incurred in the future." (TR. Vol. 5, p. 27). However, Mr. Miller could not quantify the level of the impact of the 3.0% reduction in work force. Id., p. 28.

Company witness Lee testified that the 3.0% work force reduction is the Company's expectation in an effort to identify all potential cost savings. He also testified that these efforts will not serve to reduce the Company's cost of service, but will serve to lower the level of increases. (TR. Vol. 1, p. 53).

The Commission finds that the adjustment to annualize salary and wages proposed by the Company and supported by the Commission Staff is consistent with Commission precedent as well as the methodology used by many regulatory jurisdictions. This adjustment

merely recognizes wage increases that have occurred during the test year. This is an appropriate ratemaking methodology. To do otherwise, would be to ignore a fact that has taken place during the test year, that is, wage rates and associated benefits have increased. That is a known and measurable fact. However, the 3.0% work force reduction, while a goal of the Company, is something that is not known and measurable at this point in time. To take into effect Duke Power's work force plan on year-end wage expense and other expense levels, violates the known and measurable concept. The amount of wage increases granted during the test year is known and measurable and will be included in the Company's cost of service and, accordingly, operating expenses will be adjusted by \$4,832,000.

C. ANNUALIZATION OF NON-FUEL O & M EXPENSES

The Company proposed to increase O & M expenses by \$859,000 on a jurisdictional basis in order to annualize O & M expenses other than fuel, purchased power, and wages and benefits based on growth in customers during the test period. Neither the Commission Staff nor the Consumer Advocate proposed such an adjustment. The Company computed an annualization factor of .7834% by taking the increase in end of period customers over the 13 month average number of customers. This factor was then applied to test period O & M expenses, excluding fuel, purchased power, wages and benefits to calculate the adjustment. The Commission Staff did not recommend this adjustment because it is not known and measurable. (TR. Vol. 5, p. 79). The Consumer Advocate witness Miller stated that the

customer growth ratios used by the Company are not known with sufficient specificity to annualize O & M expenses in order to derive expenses which can be expected to be incurred in the future. Thus, the Consumer Advocate was of the opinion that the adjustment failed to meet the known and measurable standard.

Based upon the use of a projected growth rate which the Commission finds not to meet the known and measurable standards, the Company's adjustment to annualize non-fuel O & M expenses should be denied.

D. ATTRITION ADJUSTMENT

In its initial filing, the Company proposed an Attrition Adjustment. However, in the supplemental testimony of Witness Stimart, the Company withdrew this adjustment and instead proposed to update O & M expenses for actual wage increases that had occurred since the end of the test year. Hearing Exhibit 22, Stimart Supplemental Exhibit 3-A.

The Staff and the Consumer Advocate opposed the Company's proposed adjustment to update for actual wage increases since the end of the test year. Staff witness Price testified that the salary increases should not be included since they have not been audited. (TR. Vol. 5, p. 88). Consumer Advocate Witness Miller testified that he did not accept any of the Company's updated numbers because the Consumer Advocate had not been presented with work papers in support of these amounts.

The Commission is of the opinion that these costs are not known and measurable. No other party has had the opportunity to

audit these figures presented. The Commission finds that it is inappropriate to allow the unaudited amounts as an increase in the Company's expenses. Therefore, the Company's proposal to increase expenses by \$4,287,000 for after test year wage increases is hereby denied.

Also at the hearing, Mr. Stimart identified an actual increase in NRC fees of \$1,048,000 that the Company had experienced since the end of the test year, December 31, 1990. Staff witness Price recommended the inclusion of the additional NRC fees in cost of service. Staff based its recommendation on its examination of the actual bills from the NRC which were furnished to the Staff and the Consumer Advocate by the Company. (TR. Vol. 4, p. 71; TR. Vol. 5, p. 88). Because the actual bills were available from the NRC concerning the increase in fees, the Commission will accept as a known and measurable expense the additional increase in NRC fees of \$1,048,000.

E. RECLASSIFICATION OF VARIOUS EXPENSES

The Commission Staff and the Consumer Advocate proposed various adjustments to certain expense items relating to advertising, dues, and payments to the Edison Electric Institute (EEI) Media Communication Program, as well as dues to various organizations, lobbying expense, and fees to the United States Council on Energy Awareness (USCEA). Specifically, the Commission Staff proposed to reduce employee recreation expense by \$70,000, dues to various organizations of \$99,000, and EEI Media Communication Program payments by \$65,000. The Commission has

traditionally considered that such institutional and promotional advertising should not be ratepayer supported expenses since these are not necessary to provide electric service. Duke included in cost of service dues for EEI and the USCEA. Consumer Advocate witness Miller proposed the elimination of these dues from test year operation and maintenance expenses based upon his belief that these two associations' activities do not provide a direct and primary benefit to ratepayers. (TR. Vol. 5, pp. 38, 34).

The Commission notes that EEI is recognized as a central source of authoritative information on electric energy and provides factual information to congressional committees and regulatory agencies. Mr. Stimart testified that a portion of the EEI dues have already been recorded as a nonelectric expense. According to ~~Mr. Stimart~~ Mr. Stimart, Duke Power receives an annual letter from EEI advising the Company, based on the annual audit they have done and as a result of negotiations between the NARUC management and EEI as to how their costs should be classified. This annual letter tells the Company how much of the dues should be allocated below the line. (TR. Vol. 4, p. 59). As a result, EEI expenses for lobbying and certain media activities are not accounted for in electric utility operations. The Commission finds that with the Staff's adjustment ~~eliminating \$65,000 from the EEI Media Communication Program, no~~ further reduction should be made to the Company's expenses relating to EEI dues.

According to witness Stimart, the USCEA is a trade association with its main interest being the advancement of and the

communicating to the public a favorable nuclear image. Consumer Advocate Witness Miller recommended that this cost be excluded from test year O & M expenses because it provides no direct and primary benefit to consumers. Mr. Miller noted that the USCEA has as its primary function the promotion of nuclear energy and that this cost should not be the responsibility of the ratepayers. (TR. Vol. 5, p. 44). As further noted by Mr. Stimart, because of Duke's reliance on nuclear generation, its customers have a vital interest in the perceived image and receptiveness of nuclear power throughout the country. The Company is very concerned and very sensitive to what happens throughout the country and throughout the world in terms of nuclear power. (TR. Vol. 4, pp. 82-83). Without further information from the Company as to the benefits of these ~~expenses to the Company's ratepayers, the Commission must disallow~~ this expense since it appears to be akin to public image advertising. Therefore, the Company's test year operation and maintenance expenses should be reduced by \$1,000,000 on a total company basis and by \$260,000 on a jurisdictional basis.

Both the Consumer Advocate and the Staff made proposals to exclude portions of the Company's advertising expenses. Consumer Advocate Witness Miller testified that the advertising expenditures ~~he proposed to exclude~~ fell into three categories: (1) ads which were of a good will or image building nature; (2) ads that are in effect contributions to various organizations and would be more appropriately charged directly to Account 426; and (3) a billing error in the month of December. (TR. Vol. 5, pp. 39-41). The

Staff also reclassified certain advertising expenditures below the line. (TR. Vol. 5, p. 80).

The Company's witness admitted that a number of the costs questioned by both the Consumer Advocate and the Staff are of a philanthropic nature or a "gray" nature, and that they should have been charged below the line. (TR. Vol. 4, pp. 87-89); Hearing Exhibit No. 25.

The Consumer Advocate and the Staff have presented evidence which indicates that the questioned costs do not provide any direct and primary benefit to ratepayers and that they are not necessary in order to provide electric service. The Company presented no evidence to the contrary; nor did it challenge these positions through cross-examination. The Commission finds that the costs questioned by the Consumer Advocate should be eliminated for ~~ratemaking~~ ratemaking purposes. This should reduce O & M expenses on a jurisdictional basis by \$110,000.

Consumer Advocate witness Miller recommended that 50% of all public affairs department expenses be excluded from test year operating expenses and charged below the line as lobbying. Miller contended that the portion of the expense charged below the line by the Company is not representative of the lobbying-related efforts conducted by employees in the Company's public affairs department. (TR. Vol. 5, pp. 42-43). Duke witness Stimart testified that the Company charges employee wages and expenses to nonelectric or "below the line" while they perform their job with respect to lobbying. (TR. Vol. 4, p. 53). The Company, when the State

legislatures are in session in North and South Carolina, allocates 100% of the directors of South Carolina and North Carolina government affairs as a below the line item. The assumption is made that those individuals spend close to 100% of their time in the respective state capitals when those legislatures are in session. That time, according to witness Stimart, is put in as lobbying. (TR. Vol. 4, p. 54).

The Commission is of the opinion that the Company has adequately allocated and accounted for lobbying expenses by its employees. Additionally, the 50% sharing of these expenses between shareholders and ratepayers recommended by the Consumer Advocate is not based on any actual or proven lobbying time or allocation.

The Commission recognizes that some legislation can directly impact ~~electrical utilities ratepayers. - The Company's participation in~~ the legislative process can directly benefit its ratepayers, such as the Clean Air Act, for example. The Commission has determined that the Company has properly allocated and accounted for its lobbying expenses and no adjustment or reclassification is necessary in this regard.

F. ADJUSTMENT TO OPERATING SUPPLIES TO END OF PERIOD COST LEVELS

The Company adjusted test period operating expenses, primarily ~~operating materials and supplies~~, to reflect what it considers to be a continual rise in unit costs which occurred during the test year. This adjustment increased total company test year operating expenses by \$11.2 million and jurisdictional test year operating expenses by \$2,937,000.

Neither the Staff nor the Consumer Advocate recommended that this adjustment be adopted. Consumer Advocate witness Miller testified that the Company determined this adjustment by using the percentage increase of the year-end Consumer Price Index (CPI) before the test period. According to Mr. Miller, this is merely an attrition adjustment and accordingly, it should be rejected because it does not meet the known and measurable standard and because of the Commission's current ratemaking philosophy which mitigates against the effects of unforeseen attrition. Staff also rejected the Company's proposal on the basis that it does not meet the known and measurable standard. (TR. Vol. 5, p. 80).

For the above-stated reasons, the Commission will not accept the Company's adjustment to increase operating supplies to end of ~~period cost levels.~~

G. ANNUALIZATION OF DEMAND SIDE PROGRAMS COSTS

Company Witnesses Lee, Denton, Reinke, and Stimart provided information relating to demand side management (DSM) costs and the DSM Stipulation. Additionally, Consumer Advocate witnesses Chernick, Miller, and Lanzalotta, Commission Staff witness Watts, and SCEUC witness Phillips provided testimony and evidence relating to DSM costs.

~~Under~~ Docket No. 87-223-E, the Company as well as other parties, including the Consumer Advocate and the Commission Staff, have agreed to comprehensive integrated resource management procedures, including the requirement for utilities to submit integrated resource plans (IRP's) by April 30, 1992, with the

Commission in accordance with the procedures agreed to and approved by the Commission. Company witness Denton testified that the Company has been engaged in least cost planning since 1974 when the Company recognized the need for an alternative to building additional generation. (TR. Vol. 6, p. 124). This planning process became more formalized in recent years and the least cost planning analysis produced a least cost integrated resource plan in 1989, followed by two short term action plans which were submitted to the North Carolina Utilities Commission in 1990 and 1991. Duke will file the results of its current least cost planning cycle with this Commission in April, 1992. (TR. Vol. 6, p. 125). Mr. Denton testified at length in his prefiled testimony and in his rebuttal testimony as to the comprehensive methodology used by Duke to ~~assess the value of demand-side options as part of the least cost~~ planning process. He testified that the purpose of the process is to select the most appropriate least cost alternative to meet future resource requirements. This is done by subjecting demand side programs to a complex analysis, the results of which will be to create a blend of available options that will dependably and reliably meet customers' needs at the lowest reasonable costs. (TR. Vol. 2, pp. 92-93). Witness Denton testified that all of the ~~programs implemented by Duke for which Duke is seeking recovery~~ have been stringently tested to ensure that they are cost effective. (TR. Vol. 6, p. 127). Company witness Reinke offered testimony to show how demand-side programs are evaluated as part of Duke's short term action plan to offset the need for generating

capacity. (TR. Vol. 6, p. 89).

Company witnesses Lee and Denton testified that the Company has accelerated its demand-side expenditures. These increased expenditures are included in cost of service in this case. (TR. Vol. 1, p. 54; Vol. 2, p. 94). Mr. Stimart testified that test year expenses were adjusted to reflect incremental operating expenses for expansion of DSM programs. (TR. Vol. 2, p. 151). Mr. Denton testified that the Company is seeking to recover incremental DSM costs of \$6,475,000 in this case. (TR. Vol. 2, p. 95). Commission Staff witness Watts reflected a similar adjustment in his analysis.

Following the submission of prefiled direct testimony, the Commission Staff, the Company and the Consumer Advocate reached ~~agreement on a Stipulation for recovery in this proceeding of DSM~~ expenditures related to the Company's least cost plan. See, Hearing Exhibit No. 45, Attachment B. The Stipulation provides that the 1990 test year expenditures, including advertising expense, may be recovered as proposed by the Company in this proceeding. This amounted to approximately \$5.6 million. Second, the \$6.475 million of DSM costs for programs listed on page 15 of Mr. Denton's prefiled testimony actually incurred by the Company ~~above the test year level may be booked by the Company into a~~ deferred account. Advertising expenditures for these programs that are reasonable and designed to achieve the goals of the respective programs may also be booked into the deferred account. Further, the Stipulation provided that the Company will credit the deferred

account for found revenues to the extent lost revenues resulting from lost KWH sales due to DSM conservation programs are included in the deferred account. A return on the deferred balance will be computed monthly and added to the balance. The rate of return will equal the net of tax rate of return approved by the Commission in this Docket or subsequent rate cases. The Stipulation also provides that if it is determined that the expenditures were prudent for used and useful DSM programs, the balance in the deferred account will be reflected in the Company's next rate case or appropriate IRP Docket by amortizing the then existing balance over a period of five years, except that the Commission can order a different period if the amount in the deferred account would have a significant impact on rates.

~~Paragraph 8 of the Stipulation provides that the Commission~~
may consider, based on the record, for inclusion in rates in some manner over and above the 1990 test year costs, the additional DSM cost it finds are actually prudently incurred or prudently committed costs in 1991. These costs will be attributable to the Duke Interruptible Service Program, Standby Generator Program, Water Heater and Air Conditioner Load Control Programs, and associated advertising costs as described in the Stipulation. The
~~additional costs subject to possible inclusion in rates in this~~
case were identified on Appendix 1 to the Stipulation and amounted to \$3,910,814.

Consumer Advocate witness Chernick testified that since the Company has not submitted its integrated resource plan for

regulatory review, it has failed to establish that the plan is truly least cost. Mr. Chernick contends that the Company has provided no basis to evaluate the prudence of its demand-side program expenditures. Therefore, Mr. Chernick recommended that the \$6.475 million should not be recovered in rates in this proceeding until the Company could show the prudence of these costs. If the Company can demonstrate in this proceeding that certain of these expenditures can be prudently committed, then those costs may be approved for recovery through expensing, rate basing, and/or deferrals. For DSM costs that cannot be supported in this case, Mr. Chernick proposed that Duke file for Commission review at a later time. In addition, Mr. Chernick testified that there were a number of features of the Company's DSM programs that were

~~inconsistent with least-cost principles, including: (1) the cost~~
effectiveness of certain programs referred to as "load building," (2) the "lost opportunities" due to the way Duke structured its programs, (3) the possibility of cream skimming, and (4) rate design that encourages customers to "take back" their energy savings through increased consumption. (TR. Vol. 5, pp. 82-86).

The Commission has before it the Stipulation agreed to by the Commission Staff, Duke, and the Consumer Advocate. The Stipulation ~~was submitted to the Commission for its approval. No party has~~
objected to approval of the Stipulation. The Commission has carefully reviewed the Stipulation and the testimony of the parties concerning the recovery of DSM costs. The Commission finds that the Stipulation is reasonable and it is hereby approved. The

Commission authorizes the deferral accounting as requested in the Stipulation. The Company shall utilize Account No. 188, Miscellaneous Deferred Debits, for the net deferral. This would include the \$6,475,000 of incremental DSM costs incurred above the 1990 test year level of expenses.

In light of the Commission's approval of the Stipulation and particularly the deferral of the \$6.475 million of incremental DSM expenses, the Commission does not deem it necessary to rule on the prudence of these costs at this time, nor should the Commission make a determination as to the cost effectiveness of the DSM programs of the Company. This will be done when the Company, pursuant to the Commission's directive in Order No. 91-1002, in Docket No. 87-223-E, files for recovery of the costs incurred in ~~implementing its TRP programs. Upon proper filing by the Company,~~ the Commission will review the cost effectiveness and prudence of these programs. The Commission's action herein should in no way suggest that the Commission will either approve or disapprove these expenditures.

The Stipulation additionally provided that the Commission may include in rates additional DSM costs that were presented in Appendix 1 to the Stipulation amounting to \$3,911,000. The ~~Stipulation provided that if the Commission finds that these costs~~ were actually and prudently incurred or prudently committed, then these costs could be included in rates in the instant case. Based on the information provided by the Company through the testimony of witness Denton, the Commission is unable to replicate the \$3.9

million calculation. While Mr. Denton's testimony provides the specified information, that information, when calculated by the Commission does not amount to \$3.9 million. Therefore, the Commission cannot determine that the \$3,911,000 indicated by the Company as being the actual 1991 DSM incremental costs were in fact actually incurred. The Company has failed to meet the requirement of the Stipulation which mandates that the Company show that the \$3,911,000 was actually incurred as well as prudently incurred or committed. That being the case, the Commission has determined that the deferral should be increased by \$3,911,000.

H. ANNUALIZATION OF OPERATING COSTS OF BAD CREEK

The Company included depreciation on all four units of Bad Creek in Electric Plant in Service. Commission Staff witness Price ~~recommended that only the Bad Creek balance through August 31,~~ 1991, be included in gross plant because the Commission Staff had not audited the Company's updated numbers. Because of the difference in the plant balance, the Commission Staff and the Company recommended different amounts for depreciation and amortization related to Bad Creek. Consumer Advocate witness Lanzalotta recommended disallowance of operating costs related to Units 3 and 4 as excess capacity, but did not reflect this ~~reduction in any of his exhibits or those of the Consumer Advocate~~ witness Miller. Based on Staff's recommendation, \$67,498,000 of construction work in progress connected with Bad Creek Unit 4, which amounts have been audited by Staff, should be included in gross plant, and that operating costs, depreciation, property

taxes, deferred costs and amortization of deferred costs should be readjusted to reflect the new plant balance.

Reviewing the evidence presented, the Commission is of the opinion that it is more appropriate to adopt Staff's recommendation since those are the numbers that have been audited as part of Staff's investigation. Therefore, depreciation relating to Bad Creek will be adjusted in the amount of \$5,073,000. The Commission Staff and the Company were in agreement as to the annualization of wages, benefits, and materials relating to Bad Creek in the amount of \$433,000 and for amortization in the amount of (\$227,000). The Consumer Advocate did not make a recommendation in regard to those two adjustments. Therefore, the Commission Staff's adjustments will be adopted. The Commission Staff also differed from the Company in the adjustment to taxes relating to the annualization of operating costs relating to Bad Creek. Because of the Commission's adoption of Staff's recommendation concerning the amount of plant in service, the Commission hereby adopts Staff's adjustment to taxes in the amount of \$1,770,000.

Both the Staff and the Company proposed to annualize the amortization of Bad Creek deferred costs. The Commission Staff differs from the Company's recommendation based on a difference in the timing of the amortization and carrying costs on the unamortized amount. The Company proposed a three-year amortization with carrying costs on the unamortized portion during the three-year period. (TR. Vol. 2, p. 51). The Commission Staff recommended a ten-year amortization with the unamortized balance

included in rate base with carrying costs in working capital. The Consumer Advocate did not make a recommendation in this regard.

The Commission finds that the recommendation of the Commission Staff of a ten-year amortization is in keeping with the Commission's policy that the impact of the deferral be minimized to the Company's ratepayers. Additionally, the Company will recover carrying costs on the unamortized balance in rate base. Therefore, the Commission Staff's adjustment achieves a balance between the competing interests of the Company and the ratepayers. The Commission will adopt the Commission Staff's adjustment of \$1,734,000 to depreciation and amortization.

I. LOUISIANA ENERGY SERVICES ADJUSTMENT

The Company has included in its total company per book figures ~~\$2,209,000 for the amortization of the Company's investment in~~ Louisiana Energy Services (LES). The Company seeks recovery from South Carolina ratepayers of \$616,000 in this case, which is South Carolina's portion of the amortization. Duke has classified LES expenditures as research and development (R & D). (TR. Vol. 1, p. 63).

LES was formed in 1990 when Claiborne Energy Services, Inc., a Duke subsidiary, entered into a partnership agreement with four other entities. The Company, through its subsidiary, has a 29% interest in the partnership. This partnership has as its objective the building of a privately owned uranium enrichment facility in the United States. Currently, the partnership is developing a uranium enrichment facility in Louisiana.

Company witness Lee testified that the Company's participation in LES was necessary in order for the project to be viable. The project would supply needed competition to the uranium enrichment services market which will lower the price of uranium enrichment services. Mr. Lee testified that the Department of Energy price is high compared to the cost of uranium enrichment services utilizing centrifuge technology such as LES would employ. In addition, Mr. Lee testified that Duke would receive a favorable uranium enrichment services contract if the LES project was successful. Finally, Mr. Lee testified that as a result of the potential competition provided by LES, the Department of Energy had already lowered its uranium enrichment services prices. These lower prices more than offset Duke's total expenditures in connection with LES.

~~--- (TR. Vol. 1, pp. 63-65) ---~~

Commission witness Price recommended that LES costs be removed from the cost of service for South Carolina ratepayers for several reasons, including the almost complete amortization of the LES costs as of the date of the hearing, the fact that the construction and operating licenses were not docketed by the NRC until May 15, 1991, the likelihood of no response from the NRC until late 1991, the uncertainty of the decision to proceed with the project unless reasonable financing is obtained, the possibility of reduced prices from the DOE with competitive pressure, Duke's lack of experience with this technology, and the reduction in investment if Duke sells its interest in LES. (TR. Vol. 5, pp. 85-86).

Consumer Advocate witness Miller recommended that LES costs be

removed from test year operating expenses and set up in a deferred account because of the contingencies surrounding licensing, the decision to proceed with construction, and Duke's plan to sell or redeem its investment at the end of the venture period. (TR. Vol. 5, p. 16).

The Commission agrees with the positions of the Consumer Advocate and the Commission Staff on this matter. While the Company may have accounted for the expenses of the development of this project as an R & D expense, this is not the kind of research and development expense for which the Commission routinely allows the associated expenses to be included in test year operating expenses. For the reasons given by Witnesses Price and Miller, the Commission will disallow this expense and reduce the jurisdictional operating expenses by \$616,000.

J. PROPERTY TAXES

The Company annualized test period property taxes on Plant in Service at December 31, 1990. Witness Stimart testified that property taxes for calendar year 1990 were assessed based upon property balances at the end of 1989. Likewise, property taxes for calendar year 1991 will be assessed upon property balances at the end of 1990. This adjustment increases property tax expense in the test period to the year-end level of investment. The Company's calculation was based upon actual historically experienced changes in rates. (TR. Vol. 2, pp. 151-152). Staff witness Price supported the Company's adjustment. Witness Miller supported the concept of annualized property taxes to reflect the taxes related

to property in service at the end of the test year. However, Mr. Miller alleged that the Company's proposed adjustment was not known and measurable because it was an estimate. (TR. Vol. 5, p. 45).

The Commission has determined that the Company's adjustment to annualize property taxes is appropriate. The Commission finds that the adjustment is based on end of year actual plant balances and meets the known and measurable standard. The Commission finds that property taxes should be adjusted by \$2,313,000.

K. OFFICERS' SALARY INCREASE

Both the Consumer Advocate and the Staff have recommended that increases granted to officers during the test year be excluded from test year operating expenses. (TR. Vol. 5, pp. 46, 86). It has been the Commission's policy in previous Duke Power proceedings, as well as in other major utility proceedings, to exclude increases in officers' salaries from test year operation and maintenance expenses. The Commission has been presented with no evidence that would persuade us not to do likewise and will thereby order the same. The Company's test year O & M expenses should be reduced by \$180,000 on a jurisdictional basis.

L. AMORTIZATION OF CATAWBA COSTS

The Commission Staff included in cost of service the annual amortization of Catawba deferred costs. This results from prior Commission decisions to amortize the reasonable and prudently incurred Catawba deferred cost over a ten-year period. No other evidence was submitted by any other party. Based on the record, the Commission finds that depreciation and amortization should be

adjusted by \$420,000 on a South Carolina jurisdictional basis.

M. IMPLEMENTATION OF SFAS 106

Consumer Advocate witness Miller recommended that Duke defer the costs associated with Statement of Financial Accounting Standards No. 106 (SFAS 106) because its effective date is not until 1993. (TR. Vol. 5, p. 48). Company witness Stimart explained that SFAS 106 requires the Company to accrue, during the years that employees render the necessary service, the expected cost of providing those benefits to employees unlike the pay-as-you-go treatment afforded these benefits in the past. Witness Stimart testified that this Statement was effective in 1990, giving companies some time to obtain the necessary records to adopt this statement as early as possible before the mandatory 1993 date. (TR. Vol. 4, p. 62). — The amount of the Company's adjustment is based on the cost determinations reflected in the Company's recently completed actuarial study undertaken to establish compliance with current accounting requirements.

Commission Staff witness Price agreed with the Company's recommendation to recognize SFAS 106 costs in this proceeding, particularly in light of the Company's recent major changes in retirement benefits. According to witness Price, the Company is recognizing the entire post retirement benefit obligation on a discounted cash flow basis for 1992. (TR. Vol. 5, p. 94). As noted by witness Price, the Company is not actually proposing to put the entire amount into cost of service but only about 10%. (TR. Vol. 5, p. 93). Witness Price noted that the Company and the

Commission Staff have known for years that this expense was coming. (TR. Vol. 5, p. 92). Additionally, Mr. Price noted that the Commission has previously approved the adoption of SFAS 106 in Docket No. 90-698-C. (TR. Vol. 5, p. 93).

The Commission has considered the evidence in the record and finds that the adjustment to reflect the implementation of SFAS 106 is a known and measurable expense and that it should be properly included in operating expenses. Therefore, the Commission Staff's adjustment to increase wages, benefits and materials by \$3,830,000 should be approved for ratemaking purposes herein.

N. INTEREST ON CUSTOMER DEPOSITS

The Commission Staff proposed to annualize interest on customer deposits, consistent with prior Commission decisions. The Company did not propose an adjustment and the Consumer Advocate did not make a recommendation in this regard. The Commission has determined that consistent with its prior decisions that Staff's adjustment increasing interest on customer deposits by \$6,000 and decreasing income taxes by \$2,000 should be adopted for ratemaking purposes herein.

O. EMPLOYEE MOVING EXPENSE

Witness Miller proposed to adjust the test year costs associated with employee moves and relocations to reflect the average employee moving expense incurred over the five-year period from 1986 through 1990, because of fluctuations in moving expenses from year to year. Witness Miller explained, "It is important that any abnormally low or high expenditure be normalized for

ratemaking purposes in order that the test year expenditure will be as representative as possible of the expenses that are anticipated to be incurred during the time the rates will be in effect." (TR. Vol. 5, p. 32). Witness Stimart testified on cross-examination that with the ongoing aggressive assessment of costs, the movement of the Company's work force experienced in 1990 should continue at an even higher rate. He concluded that 1990 costs for employee moving expenses are representative of the upcoming years. (TR. Vol. 4, pp. 81, 82). The Commission Staff concurred with the Company's expense level.

The Commission finds that in this instance where the testimony indicates that the Company's work force is moving and should continue to move, that it would be inappropriate to "normalize" the ~~employee moving expense incurred over a five-year period.~~ The Company's testimony supports the use of the 1990 costs as appropriate for employee moving expenses. The Commission does not accept the Consumer Advocate's adjustment to normalize these moving and relocation expenses. Therefore, no adjustment will be made to employee moving expenses.

P. WRITE OFF OF COLEY CREEK COSTS

The Company proposed amortization over five years of the ~~abandoned Coley Creek costs.~~ The Commission approved the Company's accounting treatment of Coley Creek costs in a letter to Mr. Stimart dated October 29, 1990, reserving further review in this proceeding. Consumer Advocate witness Miller recommended that these costs be amortized over a ten-year period. The Commission